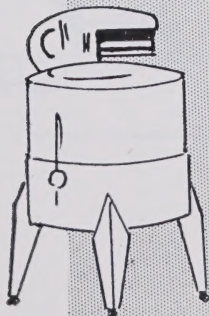
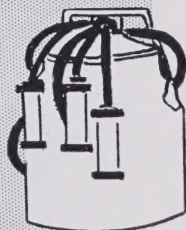
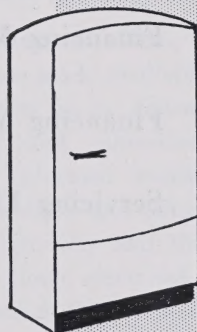
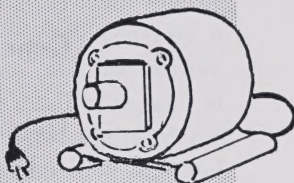
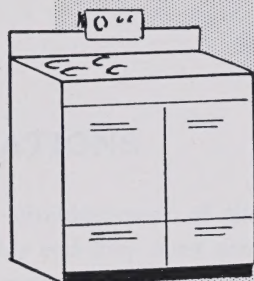
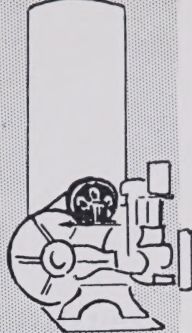


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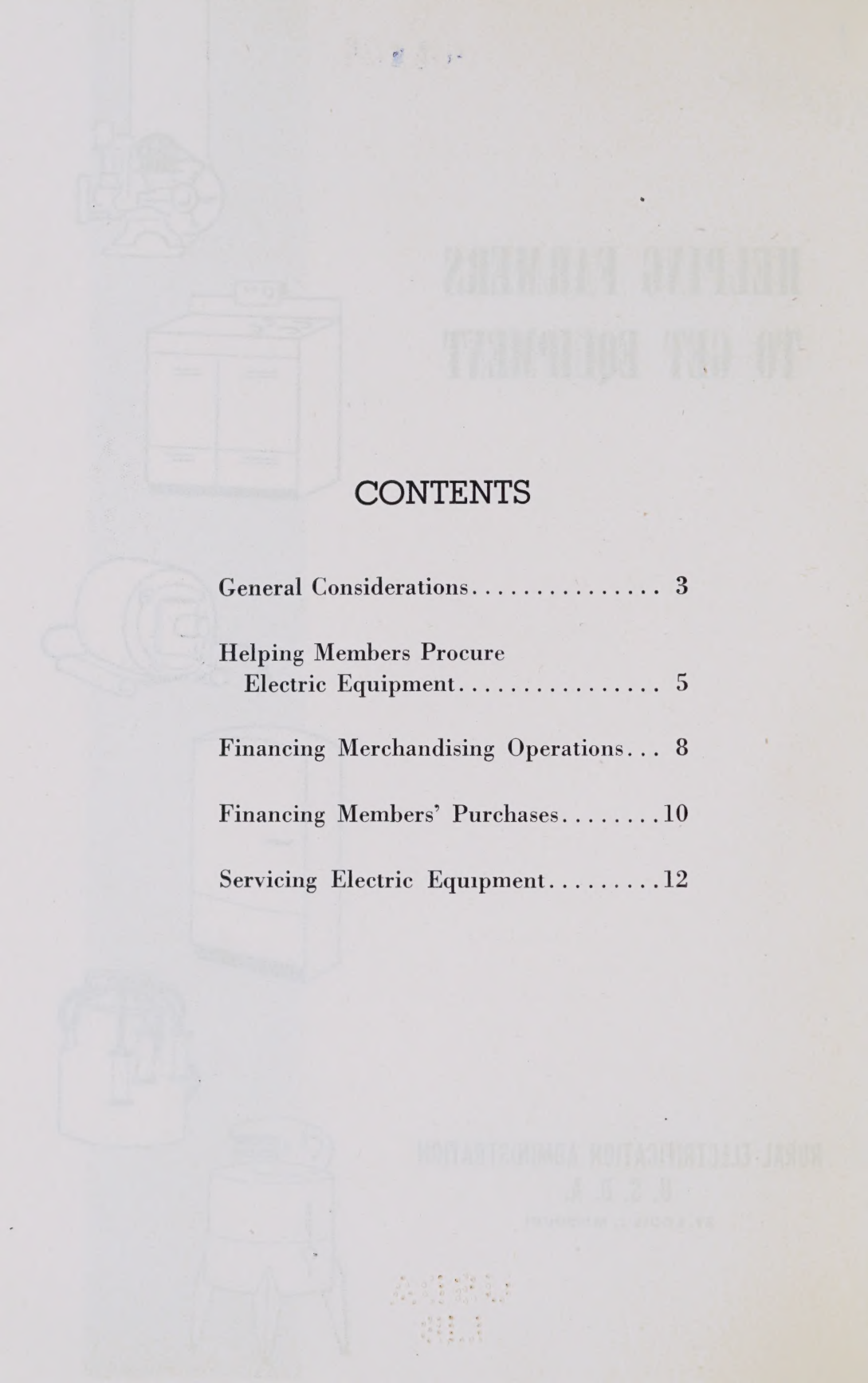
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HELPING FARMERS TO GET EQUIPMENT



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U.S. RURAL ELECTRIFICATION ADMINISTRATION
U. S. D. A.
ST. LOUIS 2, MISSOURI



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Making Farm and Home Electric Equipment Available to Members of Rural Electric Cooperatives

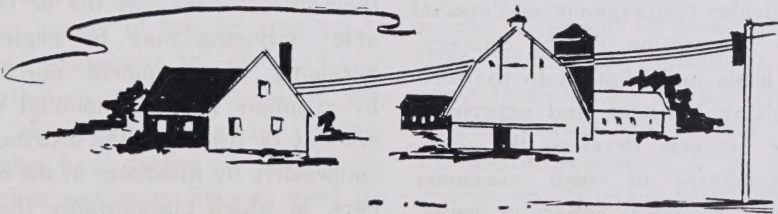
GENERAL CONSIDERATIONS

Purpose of A Rural Electric Cooperative. A rural electric cooperative is concerned with more than production and distribution of electric energy—these are only means to an end. The end sought is full use of electric energy on farms. Use of electric energy is one of the most important ways of raising the rural standard of living—by increasing productivity, lowering costs of production, reducing the drudgery in farm work, and making farm life more agreeable in other ways. Therefore the directors of a cooperative have two major responsibilities.

Making Electricity Available. The first responsibility of directors is to make electric energy available to members of the cooperative, and at the lowest cost possible under the

particular circumstances of the system. To this end they must construct physical properties, maintain them in condition to render continuous and dependable service, purchase energy wholesale or if necessary generate it at a reasonable cost, establish reasonable and equitable retail rates, and in general so conduct the affairs of the cooperative as to keep it in a sound financial and physical condition.

Promotion of Use. Electricity having been made available, the next responsibility is by education, demonstration and otherwise to keep members informed concerning the many productive and other beneficial uses of electricity and the kinds of farm and home electrical equipment through which these benefits may be realized; and to promote the avail-



ability of such equipment throughout the system area. Incidentally, from the point of view of good management distribution of electricity is a decreasing cost industry in that the unit cost of energy purchased wholesale and the unit cost of distribution to members decrease as consumption of electricity by members increases. Increase of consumption causes increase in greater proportion of earnings with which to meet operating and maintenance expenses, liquidate loans, and eventually permit the reduction of retail rates.

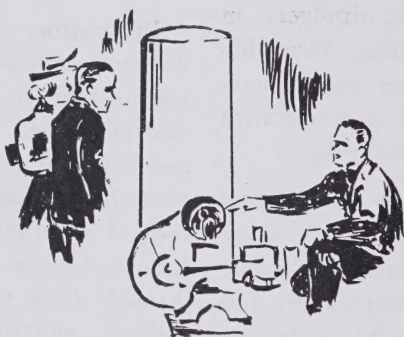
Making Equipment Available. Use depends on possession of the necessary devices. There are two basic methods of making equipment available to consumers in a system area:

Reliance on Commercial Dealers. The prevalent method is to rely on private dealers in electrical equipment throughout the area. Distribution of nearly all consumer goods is by this method. Retail merchandising as a special type of business is brought about by the fact that it calls for a particular temperament and special skills. Possession of the temperament leads individuals into the merchandising business, and experience in the business develops the skills. Merchandisers of such consumer goods as electrical apparatus gener-

ally are also merchandisers of other lines of which each carries its share of overhead, and thus certain costs of the business are spread over all the lines. When independent dealers in the areas of a system are sufficient in number, carry needed lines at reasonable prices, and service effectively the electric equipment they sell, reliance on such dealers is unquestionably the best as well as the safest policy for a cooperative. The cooperative can bring its influence to bear by stimulation of dealers to carry sufficient lines, sell at reasonable prices, and provide for proper servicing. The cooperative can cooperate in various ways that will be suggested in another section.

Merchandising by Distribution Cooperatives. In some areas distribution cooperatives feel compelled by circumstances to assume the risks

of merchandising electric equipment. There may not be a sufficient number of private dealers; those that exist may not carry an adequate number of items and may fail to respond to the suggestion



of the cooperative that they enlarge their lines; prices may not be favorable; servicing may be neglected. Servicing of equipment purchased by members from commercial dealers may be forced on the distribution cooperative by insistence of the members, in which circumstance the co-

operative feels that it is compelled to compensate itself for such costs by taking on the selling phase of merchandising.

Before making a decision to engage in merchandising of electrical equipment, the distribution cooperative should weigh all the risks and provide for avoidance of mistakes. The risks are numerous: merchandising calls for special aptitudes and skills (a large proportion of retail enterprises

fail); it may lead to violation of state laws or of the cooperative's charter; the non-profit status of the cooperative and its freedom from certain taxes may be adversely affected; ability to liquidate the Government loan may be jeopardized; the good will of established commercial dealers may be lost and public relations impaired; the good will of members may deteriorate if they are restricted in freedom of choice of items; even the control of the coop-

erative by its own members may be weakened by unwise arrangements with suppliers or financing agencies.

Before deciding to engage in merchandising of electric equipment, the distribution cooperative should consider every aspect of the problem and all alternatives under each as-

pect. The principal aspects of the problem are: (1) The best manner of making equipment available to members, in adequate range, at reasonable prices, and

with dependable servicing; (2) Provision of capital for setting up the merchandising undertaking; (3) Provision of capital for financing consumers' purchases on a partial payment basis; and (4) How adequate servicing is to be provided. The following pages present briefly alternatives under each of these aspects. That combination of alternatives should be adopted that involves the least risk in status, good will and finance to the cooperative system.



HELPING MEMBERS PROCURE ELECTRIC EQUIPMENT

Collaboration with Commercial Dealers. Before considering any other manner of helping members to obtain equipment, the directors of a distribution cooperative should survey the system area to discover whether local dealers are sufficient in number and carry lines to meet the

needs of members, or by collaboration can be stimulated to meet these needs. It should be borne in mind that leading manufacturers have come to recognize the opportunities in rural markets, are designing items of electric equipment to fit the requirements of rural users, and are

carrying out plans to increase the number and improve the quality of their retail outlets as soon as peacetime conditions are restored.

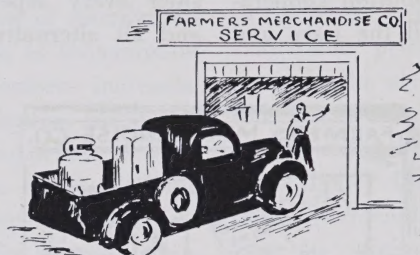
Collaboration by a distributing cooperative should be impartial; with all dependable dealers and not with a selected few. It can be expressed in many ways: by conferences at which is fully

explained the potential market represented by members, how wide a range of equipment will be in demand, the varying degrees of saturation of the various items — even the names of members of circularizing purposes if given to all dealers alike. Space in the Cooperatives' offices can be offered for display of dealers' samples. It is especially necessary that dealers be stimulated to make adequate provision for servicing, and the dependability of each in this respect should be a matter of observation and stimulation. The attention of dealers should be called to the possibility of financing members' purchases on an installment sales basis through Section 5 loans of REA by special arrangements through the electric distribution cooperative.

Collaboration with Farm Supply Cooperatives. In some rural areas are located farm supply cooperatives that have added electrical equipment to their feed, fertilizer and

other original lines. Those that have not done so might be stimulated to add such items. These farm supply cooperatives are local merchants the same as are commercial dealers, and

collaboration with them should be generally on the same basis, but they offer a few special problems. Insofar as their members or patrons are also members of the



electric distribution cooperative, collaboration will be a real service to the latter. In respect to members of the electric distribution cooperative who are not members or patrons of the farm supply cooperative, it is perhaps possible to arrange patrons' privileges for them in respect of electric equipment.

The Distribution Cooperative as Dealer. Before deciding on merchandising of electric equipment the directors of a distribution cooperative should weigh all the risks and should make arrangements to avoid or neutralize them. Among the most important considerations in respect of which they should assure themselves are the following:

Is the cooperative empowered by State law and by its charter to engage in such merchandising as selling electric equipment to members?

Is there danger of forfeiting the cooperative's non-profit status and becoming subject to taxes from

which it is now exempt? In this connection it should be noted that, to secure such exemption, not more than 15 per cent of the gross revenues of a cooperative may be derived from sales to others than members.

Is the cooperative in a position to conduct a merchandising department without impairing the efficiency of distribution operations and ability to meet debt burden?

Has the cooperative in its staff suitable personnel for the proposed department? Successful merchandising is not mere order-taking; it is a dynamic selling activity. If selling is passive and not active, expenses may come to exceed revenues.

Does the cooperative have sufficient space and personnel to carry on this added activity efficiently?

Will there be danger of merchandising operations becoming a source of personal revenue (bonuses, commissions, etc.) for some director or member of the staff?

Will it be possible to carry lines of various manufacturers; to avoid being tied to one trade name? Friction

with members may result if they do not have freedom of choice.

Can there be assurance of prices that will not only cover selling costs but also provide a reserve for "deferred servicing" of each item sold?

Can the cooperative maintain its complete independence of commercial firms from which it procures merchandise, or with which it has other relations?

Will community cooperative activity be impaired by adding merchandising?

Is the accounting function of the cooperative so developed that it can take on an additional type of accounting, and keep the accounts of merchandising entirely and completely distinct

from the accounts of generating and distributing electricity.

The above questions are among the most important of many specific questions a board of directors

should answer to its own satisfaction if it is considering the matter of approving merchandising of electric equipment by the distribution cooperative.



Other Ways of Making Electric Equipment Available to Members

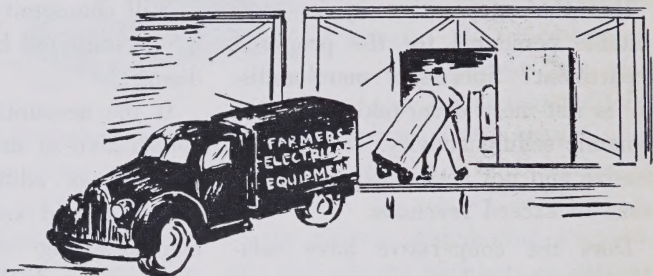
Independent Equipment Cooperative. While it is feasible for a distribution cooperative to promote the organization of a completely inde-

pendent cooperative for merchandising, with separate directors, manager, and employees, this device involves so many complications that

consideration of it is not advisable except in states whose laws prohibit distribution cooperatives from engaging in merchandising activities.

Group Purchasing. This device is not alternative to or a substitute for the different arrangements already described, but may be employed as an adjunct to any of them. In respect of some items of equipment that are new and have not reached the retail market in volume, or items for which the demand is substantial and the supply limited, or in

fact any item which members desire to procure, it is feasible in cooperation with REA to pool orders to members, purchase in quantity, and thereby effect savings for members. Group purchasing has its complications and limitations and is not feasible as a principal method of making equipment available to members of cooperatives.



FINANCING MERCHANDISING OPERATIONS

If a rural electric distributing cooperative does decide to engage in the merchandising of equipment, a certain amount of capital for the specific purpose is required — for shelves, display cases, counters, initial stock, working capital, etc. This is quite distinct from provision of capital for financing members' pur-

chasing, which is considered in the next section. Merchandising capital may be provided in several ways, *but funds loaned by REA for construction, extensions and connections related to the distribution physical plant shall not be used for merchandising activities.*

Sources of Merchandising Capital

Section 5 Loans. Section 5 of the Rural Electrification Act permits REA to make loans specifically for the purpose of procuring and in-

stalling electric equipment for members. The procurement of stock and facilities for such specific merchandising activities of a distribution co-

operative may be considered a step in the process. A loan from REA for the purpose would be a special loan, distinct from other loans such as for construction of distribution lines, and the funds must be segregated for the specific purpose.

Surplus of the Distributing Cooperative. After the establishment of the necessary reserve funds for operations, debt service, and replacements, a distribution cooperative may, if it would not impair the efficiency of its business, segregate a portion of its surplus working capital for financing merchandising operations. Thereafter only such segregated capital may properly be employed in merchandising operations.

Accounting by A Merchandising Department. Whatever the source of capital, it is imperative that the merchandising accounts be separate from other accounts of the distribution cooperative, and be adequate.

Only by such separate accounting can the cooperative be currently informed whether resources for operations of the distribution plant are being impaired, whether the merchandising department is operating on a sound basis or at a loss, and whether the cooperative is protecting its non-profit and tax-free status. The separate accounting for merchandising activities

should cover among other elements: capital investment; revenues from sales to members; revenues from sales to non-members; all costs; accounts and bills receivable of purchases on an installment payment basis; reserve for servicing; reserve for "overcharges" ultimately to be returned to members as a patronage dividend (to preserve the non-profit, tax-free status); the reserve for retirement of the loan if funds are borrowed for merchandising activities; all subject to approval and audit by REA.



FINANCING MEMBERS' PURCHASES

Section 5 Loans. Section 5 of the Rural Electrification Act authorizes the Administrator of REA "to make loans for the purpose of financing the wiring of the premises of persons in rural areas and the acquisition and installation of electrical and plumbing appliances and equipment" to any borrower from REA of funds for construction of a distribution system or to any person, firm, or corporation supplying or installing the wiring, appliances, or equipment.

A revised procedure for Section 5 loans in the postwar period has been set up by REA. The following features should eliminate complications and reduce requirements in line with streamlining the program to the best advantage of REA borrowers.

The interest rate charged by REA on all Section 5 loans to borrowers is 2 per cent per annum on the current unpaid balance. This makes it possible for borrowers to finance consumers' purchases of equipment at 4 per cent interest on the current unpaid balance.

Simplified Procedures

1. Funds will be advanced to REA borrowers on the basis of their estimated requirements for financing con-

sumer purchases, and will be made prior to the obtaining by borrowers of consumer notes or contracts.

2. Borrowers will not be required to forward consumer notes or contracts to REA. Subject to state laws, this will permit borrowers to retain such notes or contracts.

3. Only one note will be given by the borrower for the total of each Section 5 allotment, and only one statement each month regarding installation loan transactions will be required by REA.

4. Installation loan contracts, conditional sales contracts and other instruments are being shortened and simplified to the greatest extent possible as permitted by legal requirements.

5. Consumer notes or contracts covering appliances and equipment will be endorsed by dealers with recourse. On farmstead wiring and plumbing installations, endorsement with recourse will not be required.

6. The borrower's credit committee will be responsible for approving loans made for consumer appliance and equipment purchases.

REA borrowers will find this new procedure has greatly simplified the securing of Section 5 loan funds in financing consumer purchases.



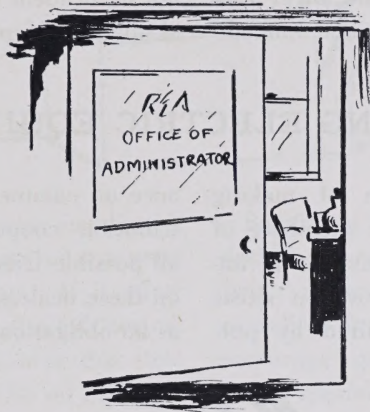
All financing of consumer purchases must be in accordance with regulations prescribed by the Federal Reserve Board or other agencies governing the terms, down payments, maximum maturity, etc., of all instalment financing for certain consumer durable and semi-durable goods. Under the arrangements which have been outlined briefly above, REA borrowers are in a position to offer their members a low-cost plan for financing the purchase and installation of wiring, plumbing and other electrical equipment which they need in order to obtain the maximum benefits of their electric

service. Such arrangements are available to both new and present consumers. REA borrowers are encouraged to give serious consideration to the question of making arrangements to assist their members in the financing of installations which will make this possible.

Section 5 loan funds will be available for financing wiring and plumbing installations and specified types of electrical equipment and appliances.

Under this simplified procedure REA borrowers will estimate their needs for financing consumer purchases, and funds will be advanced on this basis. Since no consumer

notes or contracts will be forwarded to REA, borrowers will retain consumer notes and in that manner can return them immediately to the consumers when the obligations have been paid in full. Consumer notes or contracts will be endorsed by dealers with recourse. Endorsement will not be required on wiring and plumbing installations.



This plan will enable members of REA borrowers to install a adequate wiring and plumbing and obtain electrical equipment and to pay for it on an orderly instalment basis.

Contracts with Finance Companies or Banks.

In view of the terms and conditions outlined in the preceding paragraph under which borrowers may obtain installation loan funds from REA for financing consumer purchases, borrowers will probably not wish to consider other sources of funds. Any contracts with such sources, however, are subject to the approval of REA and REA will not give favorable consideration to such contracts unless they provide for more favorable terms and conditions than are available under the Section 5 loan program.

Use of Operating Funds. In some instances a cooperative may have been successful in building up a general fund that appears adequate to provide capital for consumer pur-

chasing. There is grave risk in this assumption; appearances may be deceiving. In a non-profit cooperative the accumulation of such funds is likely to have resulted from a deferring of proper maintenance and replacement, costs which eventually must be met. Funds required for such deferred obligations should not be tied up in merchandising operations; they should be kept liquid, or at least in quasi-liquid investments, immedi-

ately available in case of need. Because of the very nature of its purpose, motives, and operating characteristics, a rural electric cooperative is not likely to have accumulated funds greatly in excess of deferred needs. If it has segregated a portion of operating funds for the basic capital investment in the overhead of a merchandising department, it would not be prudent to segregate additional operating funds for merchandising.

SERVICING ELECTRIC EQUIPMENT

Whatever the mode of making equipment available to members of a distribution cooperative, it is important that ample provision exists for the servicing required by purchasers of equipment. It is important to members that productive and other equipment be constantly in proper operating condition; it is important to the distributing cooperative that energy be consumed to the extent required by members; and it is important to the cooperative that it does not have to assume the costs of servicing unless it be a part of a planned, organized and properly financed phase of its operations.

On the Part of Commercial Dealers. If the prevailing mode of making equipment available is reli-

ance on commercial dealers, the distribution cooperative should bring all possible friendly influence to bear on these dealers to consider servicing as an obligation and to make depend-

able provision therefor, either in their own establishments or by definite arrangements with servicing shops. Prices for such servicing should not be excessive; a liberal covering of actual costs should be the desirable objective.

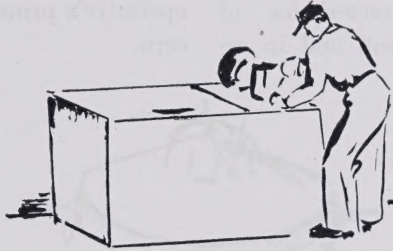
If a dealer's sales contract provides for a period of free servicing, he should establish a reserve for the purpose out of sales revenues; and if such free servicing for a period is not contemplated, selling price should be adjusted accordingly.

On the Part of A Merchandising Department of A Distribution



Cooperative. If a distribution cooperative establishes a merchandising department, it should follow the same good management practices described above for a commercial dealer. The main objective of a cooperative is service to members — not

ing cost, without any loss to the supplying cooperative, but also without profit. If profit is realized on sales, it should be set aside in a reserve for future patronage refunds after all overhead and indirect costs have been charged against it.

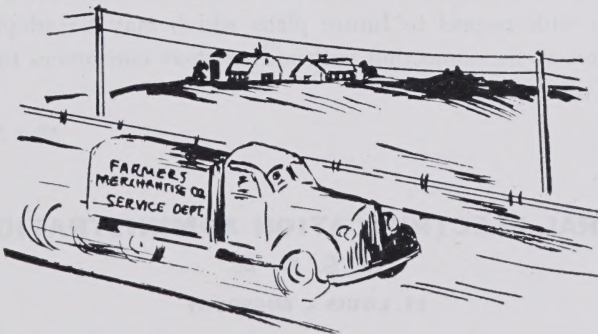


profits — and in serving members it serves itself by increase of consumption of electric energy. If it offers free servicing for a limited period, the sales price could cover that item and a reserve should be set aside for the purpose. A servicing charge should not exceed an amount necessary to cover all direct and indirect costs of the servicing.

The target at which a cooperative's merchandising policy should aim is maximum use of electric power by members, which means lowest possible original cost of equipment to the purchaser and lowest possible servic-

Servicing Shops. It may be a desirable arrangement for a merchandising department of a cooperative as well as for commercial dealers to encourage qualified electricians to set up specialized servicing shops, to whom purchasers requiring servicing may be referred. If this provision for servicing becomes established, the cooperative should assure itself that such specialized shops are qualified and dependable, and charge reasonable prices.

Self-Help in Servicing by Members. There are petty elements of servicing which a user of electrical



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